

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADOPTION OF A NEW UNIFORM SYSTEM OF) ADMINISTRATIVE
ACCOUNTS FOR KENTUCKY WATER UTILITIES) CASE NO. 314

O R D E R

Discussion

The Commission has developed a proposed Uniform System of Accounts ("USoA") for water utilities under its jurisdiction. The new USoA was developed from the 1984 USoA adopted by the National Association of Regulatory Utility Commissioners and modified to better meet the needs of Kentucky's water utilities. The new USoA is intended to improve the quality of information required in the current financial and regulatory environment without imposing unreasonable or unnecessary reporting requirements.

The new USoA is to be effective for accounting purposes January 1, 1988, and for reporting purposes effective with the December 31, 1988, Annual Report. This proceeding has been established as a means for interested water utilities under the Commission's jurisdiction to provide comments concerning the new USoA. Responses from interested water utilities should be submitted in the manner outlined in the comments and testimony section of this Order.

Several major changes have been made in the new USoA as compared with the 1976 version currently in use. One such change is the elimination of a utility class system. All water utilities will use the same USoA.

The new USoA retains the three-digit account numbering system used in the 1976 version. In most cases, the account numbers have remained the same or have been only slightly changed. However, the new USoA does utilize several series of subaccounts, most of which are mandatory. Subaccounts are most extensively used with the water utility plant accounts and the water operation and maintenance expense accounts. A matrix concept is used where basic, non-repeat accounts titles are coupled with standardized subaccounts, which are designated along functional category lines. The 1976 USoA used a separate account number to accomplish an operational system of classification.

The treatment of depreciation on contributed property has been changed in the new USoA. Where such depreciation in the 1976 USoA was debited to Depreciation Expense, under the new USoA it is debited to Accumulated Amortization of Contributions in Aid of Construction. The long-term effect of this treatment is that contributions in aid of construction will eventually be totally amortized, instead of remaining on the balance sheet indefinitely.

The new USoA has several changes for the treatment of deferred investment tax credits. Election of partial or full deferral accounting is allowed; however, once adopted a change in the accounting method is not allowed. Specific subaccounts are provided in order to distinguish between utility and non-utility operations. The accounting treatments for tax credit pass-through to the customer, or utility retention, are detailed in the new USoA.

Deferred income taxes in the new USoA are grouped into three categories: accelerated amortization, liberalized depreciation and other. In each category, subaccounts are used to distinguish taxes arising from utility operations from those arising from non-utility operations. The accounting treatment for tax effects, where a difference between taxable and pretax accounting income exists, is detailed for each category of deferred income taxes.

In this proceeding the Commission will investigate the impact of the new USoA on the water utilities subject to its jurisdiction and whether there is need for any modification to the new USoA with regard to the reporting requirements of this Commission. This Order is issued as a means of generating necessary information and comment on the items enumerated herein. Copies of the new USoA will be available to all parties of record.

COMMENTS AND TESTIMONY

The Commission welcomes the participation of the water utilities in this proceeding. Interested parties should file any comments, testimony or other relevant information concerning the new USoA, its effects, its implementation and whether any modification is necessary for reporting to this Commission. In addition, the Commission will require that utilities participating in this proceeding file the following information:

1. A description of the manner in which the new accounting numbering system will be implemented, i.e., will the numbering system become the utility's internal accounting system or will the utility use a different internal numbering system, but prepare its reports using the USoA account numbers?

2. An estimate, with supporting documentation, of the cost to implement the new USoA.

3. An indication of whether there are sufficient reasons for not implementing a single USoA for all water utilities, a description of any potential problems or shortcomings with a single system and suggestions or recommendations of how to deal with any problems.

4. A description of the utility's ability to segregate the needed information on contributions in aid of construction in order for it to comply with the new USoA treatment of depreciation on contributed property.

5. An indication of any potential problems the utility would have with using the functional matrix concept to record utility plant and operation and maintenance expense accounts, including problems with assignments of an asset or expense to a functional category.

6. Any advantages or disadvantages to small water utilities (those with 100 or fewer customers) in utilizing the accrual or cash basis of accounting for reporting purposes to this Commission.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. This case should be established in order to obtain information on the issues enumerated in this Order concerning the new USoA.

2. Any interested utilities under the jurisdiction of this Commission which will be subject to the reporting requirements of the new USOA should file information as outlined in this Order and any additional testimony in this matter within 45 days from the date of this Order.

3. Any interested parties should be invited to file information, testimony, or comment on this matter within 45 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. This case be and it hereby is established as set out in Finding No. 1 of this Order.

2. A hearing be held on this matter in the Commission's Offices at Frankfort, Kentucky, at 9:00 a.m. local time on December 1, 1987.

3. The affected utilities and interested parties shall file any information, testimony or comments according to Finding Nos. 2 and 3 of this Order.

Done at Frankfort, Kentucky, this 27th day of August, 1987.

PUBLIC SERVICE COMMISSION

Richard D. Homan Jr.
Chairman

Richard D. Homan Jr.
Vice Chairman

Spencer M. Williams
Commissioner

ATTEST:

Executive Director